HATLEIGH CORPORATION

1980 Annual Report

HATLEIGH CORPORATION

Directors and Officers

J. F. Kay
Chairman of the Board, Director
J. A. Plaxton
President and Chief Executive Officer, Director
J. T. Eyton, Q.C., *Director*
M. A. Jacobs, *Director*
P. J. Keenan, *Director*
W. J. L'Heureux, *Director*
F. Y. McCutcheon, *Director*
R. D. Grandy, *Vice-President*
J. A. Lukshis, *Treasurer and Secretary*

Audit Committee

F. Y. McCutcheon, *Chairman*
P. J. Keenan
J. A. Plaxton
J. A. Lukshis, *Secretary*

Auditors

Coopers & Lybrand

Head Office

Suite 7050
First Canadian Place
Toronto, Ontario, M5X 1A4

HATLEIGH CORPORATION

DIRECTORS' REPORT
TO THE SHAREHOLDERS

Total revenues for the year amounted to $8,468,000 which was $926,000 (9.8%) lower than 1979. The reduction in revenues was due to significantly poorer results of Foodex Inc. resulting mainly from customer count softness attributable to continued weak economic conditions and lower interest income which was partly offset by the sharply higher revenues from gas operations due to better prices and increased quantities of natural gas delivered in 1980 and improved results from your Company's holding of 21.4% of North Canadian Oils Limited.

Earnings before extraordinary items totaled $1,007,000 in 1980 as compared with $2,871,000 reported for the previous year. The sharp decline resulted from the loss in Foodex Inc., greater interest costs relating to increased bank borrowings at higher rates and lower interest income which was partially offset by better operating results of North Canadian Oils Limited, improved earnings from gas operations and somewhat lower general and administrative expenses.

After deduction of an extraordinary loss, a net loss of $12,594,000 was recorded for 1980 compared with net earnings (after extraordinary gains of $10,939,000) of $13,810,000 for the previous year. The current year's extraordinary loss includes a provision of $14,477,000 for writing down your company's investment in Foodex Inc. to an estimated realizable value of $12,000,000. Included in extraordinary gains in 1979 was an amount of $8,116,000 relating to a dividend received from Peel-Elder Developments Limited and the subsequent sale of its shares.

On February 13, 1981, your Company sold its entire investment of 700,900 shares in Lane Bryant, Inc. to that company for approximately $19,300,000 cash, resulting in a gain, net of applicable income taxes, of approximately $4,800,000 (Note 11(b) to accompanying financial statements).

Subsequent to the year-end, your Board of Directors approved a reorganization of Hatleigh Corporation which includes the transfer of your Company's gas properties to a subsidiary of North Canadian Oils Limited and the creation of a class of second preference shares for subscription by North Canadian. A summary of the reorganization is included in Note 11(a) to the accompanying financial statements.

On behalf of the Board of Directors

Chairman of the Board

President and Chief Executive Officer

Toronto, Canada, March 13, 1981.

HATLEIGH CORPORATION

CONSOLIDATED STATEMENT OF INCOME
FOR THE YEAR ENDED DECEMBER 31, 1980

	1980	1979
	$	$
REVENUE		
Gas operations (note 1(d))	7,309,000	5,569,000
Interest income	1,012,000	2,136,000
Dividend income	616,000	—
Other	157,000	582,000
Equity in earnings (loss) of —		
Foodex Inc.	(1,663,000)	348,000
North Canadian Oils Limited	1,037,000	759,000
	8,468,000	9,394,000
EXPENSES		
General and administrative	506,000	805,000
Gas royalties and operating costs	2,472,000	1,996,000
Depreciation and depletion	706,000	723,000
Interest on long-term debt	686,000	349,000
Other interest	1,936,000	1,347,000
Minority interest	71,000	72,000
	6,377,000	5,292,000
EARNINGS BEFORE INCOME TAXES AND EXTRAORDINARY ITEMS	2,091,000	4,102,000
INCOME TAXES (note 6)		
Current	825,000	1,051,000
Deferred	259,000	180,000
	1,084,000	1,231,000
EARNINGS BEFORE EXTRAORDINARY ITEMS	1,007,000	2,871,000
EXTRAORDINARY ITEMS (note 7)	(13,601,000)	10,939,000
NET EARNINGS (LOSS) FOR THE YEAR	(12,594,000)	13,810,000

HATLEIGH CORPORATION

CONSOLIDATED BALANCE SHEET AS AT DECEMBER 31, 1980

ASSETS

	1980	1979
	$	$
CURRENT ASSETS		
Cash	9,000	914,000
Marketable investment securities — at cost (market value 1980 — $9,936,000)	9,091,000	—
Receivables —		
Due on sale of investment	—	984,000
Current portion of Kesmark Ltd. debenture	1,000,000	1,000,000
Accrued interest and other	54,000	2,220,000*
Due from subsidiary and affiliated corporations	1,331,000	35,000
	11,485,000	5,153,000
INVESTMENTS, less current portion of Kesmark Ltd. debenture (see Consolidated summary of Investments — Appendix A) (notes 1(a), 1(c) and 11)	49,805,000	56,456,000
GAS PROPERTIES AND EQUIPMENT, less accumulated depreciation and depletion of $1,642,000 (1979 — $943,000) (notes 1(d), 3 and 11)	15,925,000	15,407,000
	77,215,000	77,016,000

** The 1979 comparative data has been conformed to the 1980 format.*

AUDITORS' REPORT TO THE SHAREHOLDERS

We have examined the consolidated balance sheet of Hatleigh Corporation as at December 31, 1980 and the consolidated statements of income, deficit, appraisal excess and contributed surplus and changes in financial position for the year then ended. For Hatleigh Corporation and its consolidated subsidiaries and for the subsidiary company accounted for by the equity method of which we are auditors, our examination was made in accordance with generally accepted auditing standards, and accordingly included such tests and other procedures as we considered necessary in the circumstances. We have relied on the report of the auditors who have examined the financial statements of the affiliated company accounted for by the equity method.

In our opinion, these consolidated financial statements present fairly the financial position of the corporation as at December 31, 1980 and the results of its operations and the changes in its financial position for the year then ended in accordance with generally accepted accounting principles applied on a basis consistent with that of the preceding year.

The consolidated financial statements for 1979, which are included for comparative purposes, were reported on by the previous auditors.

Coopers & Lybrand

CHARTERED ACCOUNTANTS

February 20, 1981
(except for note 11(a) which
is February 24, 1981)

LIABILITIES

	1980	1979
	$	$
CURRENT LIABILITIES		
Bank indebtedness (note 2)	21,569,000	6,567,000
Due on purchase of investments	495,000	1,238,000
Accounts payable and accrued charges	1,657,000	858,000
Current portion of secured debentures (notes 3 and 11)	917,000	—
	24,638,000	8,663,000
LOAN DUE TO AFFILIATED CORPORATION (note 11)	8,218,000	8,218,000
11¼% SECURED DEBENTURES DUE AUGUST 31, 1988, less current portion (notes 3 and 11)	7,176,000	3,490,000
DEFERRED INCOME TAXES	439,000	180,000
MINORITY INTEREST IN CONSOLIDATED SUBSIDIARY (note 4)	1,280,000	1,280,000

SHAREHOLDERS' EQUITY

	1980	1979
CAPITAL STOCK (notes 5 and 11)	33,149,000	38,908,000
CONTRIBUTED SURPLUS	516,000	383,000
APPRAISAL EXCESS	7,026,000	7,338,000
RETAINED EARNINGS (DEFICIT)	(5,227,000)	8,556,000
	35,464,000	55,185,000
	77,215,000	77,016,000

SIGNED ON BEHALF OF THE BOARD

Director

Director

HATLEIGH CORPORATION

CONSOLIDATED STATEMENT OF DEFICIT
FOR THE YEAR ENDED DECEMBER 31, 1980

	1980	1979
	$	$
RETAINED EARNINGS (DEFICIT) — BEGINNING OF YEAR	8,556,000	(3,653,000)
Net earnings (loss) for the year	(12,594,000)	13,810,000
Transfer from appraisal excess (note 1(d))	312,000	342,000
	(3,726,000)	10,499,000
Dividends paid on special shares	1,501,000	1,943,000
RETAINED EARNINGS (DEFICIT) — END OF YEAR	(5,227,000)	8,556,000

HATLEIGH CORPORATION

CONSOLIDATED STATEMENT OF APPRAISAL EXCESS AND CONTRIBUTED SURPLUS FOR THE YEAR ENDED DECEMBER 31, 1980

APPRAISAL EXCESS

	1980	1979
	$	$
BALANCE — BEGINNING OF YEAR	7,338,000	7,680,000
Transfer to retained earnings of the portion of appraisal excess realized through amortization in the year (note 1(d))	(312,000)	(342,000)
BALANCE — END OF YEAR	7,026,000	7,338,000

CONTRIBUTED SURPLUS

	1980	1979
BALANCE — BEGINNING OF YEAR	383,000	333,000
Excess of par value of special shares purchased for cancellation over purchase price (note 5)	133,000	50,000
BALANCE — END OF YEAR	516,000	383,000

HATLEIGH CORPORATION

CONSOLIDATED STATEMENT OF CHANGES IN FINANCIAL POSITION
FOR THE YEAR ENDED DECEMBER 31, 1980

	1980	1979
	$	$
SOURCE OF WORKING CAPITAL		
Provided from operations -		
Earnings before extraordinary items	1,007,000	2,871,000
Items not affecting working capital —		
Equity in loss (earnings) of —		
Foodex Inc	1,663,000	(348,000)
North Canadian Oils Limited	(1,037,000)	(759,000)
Depreciation and depletion	706,000	723,000
Deferred income taxes	259,000	180,000
	2,598,000	2,667,000
Realization of income tax losses carried forward	65,000	1,051,000
Sale of investments	2,207,000	3,271,000
Proceeds from sale of shares of Peel-Elder Developments Limited	—	100,000
Current portion of Kesmark Ltd. debenture	1,000,000	1,000,000*
Repayment of inter-company account owed by Peel-Elder Developments Limited net of $10,000,000 debenture taken back	—	16,843,000*
	5,870,000	24,932,000
USE OF WORKING CAPITAL		
Reduction in long-term debt	—	15,250,000*
Capital expenditures on gas properties	1,217,000	1,196,000
Purchase of investments	10,852,000	5,048,000
Purchase of special shares for cancellation	657,000	894,000
Dividends	1,501,000	1,943,000
Decrease in loan due to affiliated corporation	—	2,315,000
Purchase of secured debentures	1,283,000	713,000*
Other	3,000	11,000
	15,513,000	27,370,000
DECREASE IN WORKING CAPITAL	(9,643,000)	(2,438,000)
WORKING CAPITAL DEFICIENCY — BEGINNING OF YEAR	(3,510,000)	(1,072,000)
WORKING CAPITAL DEFICIENCY — END OF YEAR	(13,153,000)	(3,510,000)

** The 1979 comparative data has been conformed to the 1980 format.*

HATLEIGH CORPORATION

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED DECEMBER 31, 1980

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The following is a summary of significant accounting policies followed in the preparation of these financial statements:

(a) Basis of consolidation

Significant subsidiaries and the Corporation's percentage ownership in the common share equity at December 31, 1980 were as follows:

Franco-Scandinavian Investments Inc. ("Franco") (formerly Hambro Corporation of Canada Limited)	100.0%
Anglo-Scandinavian Securities Inc. ("Anglo")*	100.0%
Foodex Inc. ("Foodex")*	100.0%
Gibraltar Pari-Mutuel, Inc. ("Gibraltar")**	63.0%

* held through Franco

** held through Foodex

The Corporation's business is the acquiring, holding and disposing of investment positions in a variety of investment opportunities, either directly, or through certain wholly-owned subsidiaries which act as holding companies. These consolidated financial statements include the accounts of all such holding subsidiaries on a consolidated basis. Of the subsidiaries listed above, Anglo and Franco are holding subsidiaries. In December 1980, management determined that the investment in Foodex and Gibraltar was not intended to be held indefinitely. In addition, there are restrictions on the interchangeability of resources between the Corporation and Foodex, including restrictions imposed by the subscription agreement referred to in note 8, and the Corporation considers it more informative to present its investment in Foodex on the equity method. Consequently, the investment in Foodex and Gibraltar has been accounted for by the equity method and since December, 1980, at an amount not exceeding its estimated realizable value (note 7).

(b) Marketable investment securities

Marketable investment securities are carried at the lower of average cost less, where applicable, proceeds received from the sale of options, and market value. The market value shown represents the lower of the actual quoted market price and, for those shares covered by written options at December 31, 1980, the option exercise price.

(c) Investments

Investments in unconsolidated subsidiaries and in companies in which the Corporation has significant influence, at present North Canadian Oils Limited ("North Canadian"), are accounted for by the equity method. All other investments are carried at cost.

(d) Gas properties and appraisal excess

Gas properties and equipment acquired on the amalgamation with Hatleigh Investments Limited on August 31, 1978, together with all subsequent costs associated with the exploration for and the development of gas reserves, are carried at cost plus an appraisal write-up made in 1978, less accumulated depreciation and depletion. The appraisal write-up gave rise to the appraisal excess carried in shareholders' equity. Transfers are made annually from the appraisal excess account to retained earnings on the same basis as the related assets are depreciated and depleted.

The Corporation follows the full cost method of accounting for exploration and development expenditures, wherein all costs related to the exploration for and development of oil and gas

reserves are capitalized. These costs include leasehold acquisition costs, geological and geophysical expenses, costs of drilling both productive and non-productive wells, gas production equipment, gathering lines, compressors and gas plants and overhead expenses related to the exploration activities. All such costs are being amortized on the unit-of-production method, based on estimated proven recoverable reserves as determined by independent engineers.

(e) Deferred income taxes

Deferred income taxes are provided on timing differences between accounting income and income for tax purposes. These differences arise principally from claiming depreciation and depletion for tax purposes at higher rates than are applied in the determination of accounting income.

2. BANK INDEBTEDNESS

Bank indebtedness consists of demand loans and overdrafts and is secured by a pledge of a substantial portion of the Corporation's investments and marketable investment securities.

3. 11¼% SECURED DEBENTURES DUE AUGUST 31, 1988

The Corporation's debentures were issued on the exchange of Class B special shares (note 5) and are guaranteed as to payment of principal and interest by North Canadian, subject to the prior redemption of North Canadian's outstanding preference shares ($1,214,000 current par value) (see Appendix A for summary of information as to investment in North Canadian).

The debentures are secured by a fixed charge on the Corporation's gas properties and are redeemable, other than for sinking fund purposes, at 108.75% of the principal amount to August 31, 1981, declining by 1.25% annually to 100% in the year ending August 31, 1988.

The Corporation may purchase debentures in the market or by tender or private contract at prices not exceeding the foregoing percentages of the principal amount thereof together in each case with the accrued and unpaid interest. In addition, the Corporation is required to make sinking fund payments sufficient to retire, on August 31 in each of the years 1981 to 1987 inclusive, $917,000 principal amount of debentures.

During 1979, the Corporation retired $330,000 principal amount towards its 1980 obligation. During 1980, the Corporation retired a further $366,000 principal amount of debentures thereby satisfying the sinking fund requirements for 1980.

4. MINORITY INTEREST IN CONSOLIDATED SUBSIDIARY

This minority interest consists of 5½% cumulative, redeemable Series A preferred shares of Franco at par value of $25 each (total $1,280,000). These preferred shares are redeemable at a premium of 3½% to February 1, 1981, 2½% to February 1, 1986 and 1½% thereafter.

5. CAPITAL STOCK

The authorized capital stock at December 31, 1979 consisted of Class A cumulative redeemable special shares having a par value of $7.00 per share, Class B cumulative redeemable convertible special shares having a par value of $7.00 per share and common shares without par value. Effective September 30, 1980, the authorized Class B shares became authorized Class A shares and accordingly at December 31, 1980 the authorized capital stock consisted of Class A shares and common shares. The number of authorized shares at both December 31, 1980 and 1979 were as follows:

	1980	1979
Class A special shares	3,302,590	1,766,660
Class B special shares	—	2,358,610
Common shares	5,000,000	5,000,000

A continuity of the issued and outstanding capital stock from December 31, 1979 to December 31, 1980 follows:

	Class A special shares		Class B special shares		Common shares		Total
	Number	Par value $	Number	Par value $	Number	Paid-up value $	Par or paid-up value $
Issued and outstanding, December 31, 1979	1,208,206	8,458,000	1,520,929	10,646,000	3,500,000	19,804,000	38,908,000
Year ended December 31, 1980 —							
Purchased for cancellation	(78,820)	(552,000)	(34,000)	(238,000)	—	—	(790,000)
Exchanged for 11¼% secured debentures	—	—	(709,860)	(4,969,000)	—	—	(4,969,000)
Converted into Class A special shares	777,069	5,439,000	(777,069)	(5,439,000)	—	—	—
	698,249	4,887,000	(1,520,929)	(10,646,000)	—	—	(5,759,000)
Issued and outstanding, December 31, 1980	1,906,455	13,345,000	—	—	3,500,000	19,804,000	33,149,000

The holders of Class B special shares were, at any time prior to September 30, 1980, entitled to exchange ten Class B special shares for one $70.00 secured debenture of the Corporation, the terms of which are described in note 3. At September 30, 1980, the then issued and outstanding Class B special shares became Class A special shares.

The holders of the Class A special shares are entitled to receive fixed cumulative preferential cash dividends at an annual rate of 9¾% of the par value thereof. The holders of the special shares as a group are entitled at all meetings of the shareholders to 103% of the votes attaching to the Corporation's common shares.

The Class A special shares are redeemable at $7.50 per share prior to September 1, 1983, reducing by $0.10 per share annually until September 1, 1987, after which date the shares are redeemable at $7.00 per share. In addition, the Corporation may at any time purchase for cancellation all or any part of the Class A special shares in the open market at a price not exceeding the then applicable redemption price plus all accrued and unpaid dividends.

The Corporation was required in 1980 and is required in subsequent years to make all reasonable efforts in each quarter to purchase for cancellation in the open market 1% of the 3,603,865 special shares originally issued, less the number of Class B special shares exchanged for secured debentures, at a price not exceeding $7.00 per share plus all accrued and unpaid dividends thereon. The Corporation purchased sufficient shares to meet its requirements for the four quarters of 1980 and also purchased additional shares towards meeting the objective of satisfying by September 30, 1981 the purchase deficiency which existed at December 31, 1979.

The excess of the par value of the special shares purchased over the aggregate purchase price thereof is included in contributed surplus.

6. INCOME TAXES

Income taxes as provided in the consolidated statement of income are different from the amount that would result from the application of statutory rates to pre-tax income. The difference is largely attributable to:

i) the deduction for tax purposes of certain additional allowances relating to gas operations; and

ii) the elimination in the determination of taxable income of the Corporation's recorded equity in the operating results of Foodex and North Canadian.

At December 31, 1980 the Corporation and a subsidiary had net capital loss carry-forwards of approximately $3,351,000 (1979 — $3,833,000). Such losses are available indefinitely to apply against future net taxable capital gains. No recognition has been given in these consolidated financial statements to such future tax reductions as may result from the application of these losses.

7. EXTRAORDINARY ITEMS

Extraordinary items comprise the following:

	1980	1979
	$	$
Write-down of investment in Foodex Inc. to estimated realizable value (note 1(a))	(14,477,000)	—
Reduction of income taxes resulting from the carry-forward of prior years' losses	65,000	1,051,000
Sale of Peel-Elder	—	8,116,000
Gain on sale of shares of McIntyre Mines Limited	811,000	1,772,000
	(13,601,000)	10,939,000

8. SUBSCRIPTION AGREEMENT

As long as any of the $9.00 redeemable preference shares of Foodex remain outstanding, Foodex is required to maintain its consolidated shareholders' equity at not less than $33,198,000 and is required to notify the Corporation within sixty days of its fiscal year-end of any deficiency. The Corporation has agreed that it will subscribe, subsequent to notification of any such deficiency, for additional shares of Foodex ranking junior to the preference shares to the extent, if any, required to increase consolidated shareholders' equity of Foodex to $33,198,000. Such deficiency amounted to $2,697,000 at December 31, 1980 (1979 — $413,000). Under this agreement, the Corporation subscribed for $413,000 of junior preference shares to meet the 1979 deficiency, and it is the intention of the Corporation to subscribe for additional junior preference shares of Foodex to meet the 1980 deficiency.

9. CONTINGENCIES

(a) In 1979, the Corporation sold its wholly-owned subsidiary, Peel-Elder Developments Limited ("Peel-Elder"), to Kesmark Holdings Ltd. As a result of a subsequent amalgamation, the assets of Peel-Elder became the assets of Kesmark Ltd., a wholly-owned subsidiary of Kesmark Holdings Ltd. Under the sale agreement, Kesmark Ltd. is obligated to pay the Corporation on December 15, 1984, 50% of any net gain, as defined, accruing from dispositions or deemed dispositions of the Peel-Elder real estate assets at prices in excess of the fair market values ascribed in independent appraisals made as at December 31, 1979.

(b) The Corporation is contingently liable as guarantor of a 12% mortgage on a shopping centre owned by Peel-Elder at the time of its sale to Kesmark Holdings Ltd. At December 31, 1980 the principal amount of the mortgage was $9,604,000.

(c) For a summary of the contingent liabilities of Foodex, refer to page 19.

10. RELATED PARTY TRANSACTIONS

The following is a summary of the related party transactions during the year ended December 31, 1980:

(a) The Corporation accrued or paid professional services fees aggregating $265,000 to two legal firms in which three directors of the Corporation are partners.

(b) The Corporation paid brokerage commissions of $57,000 to a company owned by the then president of the Corporation.

(c) Interest of $1,003,000 was accrued on the Kesmark Ltd. debenture. Kesmark Ltd. is wholly-owned by the chairman of the board of the Corporation.

(d) Management fees of $105,000 were charged by Franco to its wholly-owned subsidiary, Foodex. In addition, the Corporation paid $300,000 to North Canadian in respect of management fees for the operation of the gas properties and $232,000 in respect of interest on the secured debentures held by North Canadian.

(e) The Corporation entered into an agreement with North Canadian whereby it transferred to North Canadian its interest in the "deep zones" of certain oil and gas leases in return for a 15% carried interest in the net profits therefrom. North Canadian is responsible for the development and operation of these properties.

11. EVENTS SUBSEQUENT TO DECEMBER 31, 1980

(a) On February 24, 1981, the board of directors of North Canadian approved a reorganization involving the sale by North Canadian of its investment in the Corporation for $23,400,000 cash to a director of the Corporation, which amount is approximately $900,000 greater than the written-down value of North Canadian's investment in the Corporation. Under the proposed reorganization, which is subject to the approval of the shareholders of North Canadian, the following transactions would occur immediately prior to the sale:

i) North Canadian would make a cash contribution to the Corporation in the aggregate amount of $15,444,000;

ii) The Corporation would transfer to a subsidiary of North Canadian the gas property interests for a consideration of $867,000 of preference shares of such subsidiary, which preference shares would be redeemed for cash of $867,000; and

iii) The Corporation would pay cash of $16,311,000 in consideration for the assumption by North Canadian of the 11¼% secured debentures of the Corporation and as repayment of the amount due to North Canadian.

Immediately following the sale, North Canadian would subscribe for 736,000 redeemable second preference shares of the Corporation for cash of $18,400,000. The second preference shares (the authorization of which is subject to approval by the shareholders of the Corporation) will bear a cumulative dividend payable at an annual rate equal to one-half of the "prime" lending rate plus 1½% and will be subject to mandatory redemptions of $1,000,000 annually for the first three years, $2,000,000 for the next three years and the balance due at the end of the seventh year following issue.

(b) On February 13, 1981, the Corporation sold its investment in Lane Bryant, Inc. to that company for approximately $19,300,000 cash, which resulted in a profit of approximately $4,800,000, net of applicable income taxes of approximately $200,000. On February 18, 1981, Lane Bryant filed suit against the Corporation in a New York Federal Court to recover about $666,000 (U.S.) of the profit realized by the Corporation on the sale of its 700,900 shares of Lane Bryant on February 13, 1981 to Lane Bryant. The cause of action arises from a provision of the U.S. Securities Exchange Act of 1934 which requires that profits realized by a holder of greater than 10% of the shares of a company, on a sale made within six months of the purchase of the shares, must be relinquished to the company. In addition, an action has been commenced in the New York State Supreme Court by a shareholder of Lane Bryant against Lane Bryant's directors, certain of its officers and others, including the Corporation, claiming damages in connection with the sale of the Corporation's Lane Bryant shares. These actions are in their very preliminary stages and, accordingly, management is unable to predict their effects, if any, on the Corporation.

HATLEIGH CORPORATION
CONSOLIDATED SUMMARY OF INVESTMENTS
AS AT DECEMBER 31, 1980

	1980		
	Shares controlled		Quoted market value
	Number	% interest	(note A)
			$
Shares (with quoted market value) —			
North Canadian Oils Limited common (note C)	1,219,296	21.4	20,174,000
Lane Bryant, Inc. common (note B)	700,700	15.4	14,832,000
Fondex Inc. cumulative redeemable preference	—	—	—
Other	—	—	—
			35,006,000
Shares (with no quoted market value) —			
Foodex Inc. common (note D)	2,625,141	100.0	
Foodex Inc. Series A junior preference	413,000	100.0	
10% debenture of Kesmark Ltd., less current portion of $1,000,000 (note E)			

	1979			
Carrying value	Shares controlled		Quoted market value (note A)	Carrying value
	Number	% interest		
$			$	$
15,267,000	1,219,296	21.6	25,477,000	14,230,000
14,538,000	186,400	nominal	3,756,000	3,508,000
—	86,100	5.1	581,000	702,000
—	—	—	2,065,000	1,216,000
29,805,000			31,879,000	19,656,000
11,587,000	2,625,141	100.0		27,800,000
413,000	—	—		—
8,000,000				9,000,000
49,805,000				56,456,000

HATLEIGH CORPORATION

NOTES TO CONSOLIDATED SUMMARY OF INVESTMENTS
FOR THE YEAR ENDED DECEMBER 31, 1980

A. MARKET VALUE OF INVESTMENTS

The quoted market values shown in the summary of investments do not necessarily represent the value of entire blocks of investment holdings which may be more or less than the value indicated by market quotations.

B. ACCOUNTING FOR INVESTMENTS

The investment in common shares of North Canadian is carried on the equity basis of accounting. As described in note 1(a) to the financial statements, the investment in Foodex is carried on the equity basis of accounting, less a provision of $14,477,000 to reduce the carrying value to its estimated realizable value. In 1979, the investment in McIntyre Mines Limited, which is included in other investments, is carried at cost less prior years' provisions to reduce to approximate market value at December 31, 1977. The investments in all other shares are carried at cost.

C. NORTH CANADIAN

North Canadian's principal business is the exploration, production, transportation and sale of natural gas. North Canadian also owns 100% of the outstanding common shares of the Corporation. Additional information relating to the Corporation's investment in North Canadian is as follows:

	1980	1979
	$	$
Corporation's proportion of book value of underlying net assets at date of acquisition, less adjustment of $1,137,000 on 1978 amalgamation	6,727,000	6,727,000
Excess cost attributed to proven gas reserves, less adjustment of $800,000 on 1978 amalgamation	6,452,000	6,452,000
	13,179,000	13,179,000
Equity in undistributed earnings since acquisition (see note (i) below)	2,605,000	1,384,000
Amortization of excess cost attributed to proven gas reserves (see note (ii) below)	(517,000)	(333,000)
	2,088,000	1,051,000
Carrying value at end of year	15,267,000	14,230,000

Notes:

(i) the equity in undistributed earnings excludes North Canadian's share of the Corporation's undistributed earnings.

(ii) the excess cost attributed to proven gas reserves is being amortized on a straight-line basis over the estimated life of such reserves, being approximately 35 years from the date of the Corporation's investment in North Canadian.

Summarized operating results of North Canadian (excluding its share of the Corporation's revenue and net income) and the Corporation's equity therein for the years ended December 31, 1980 and 1979 are as follows:

	1980	1979
	$	$
Revenue	17,704,000	15,600,000
Net earnings	5,680,000	4,368,000
Corporation's equity in earnings for the period	1,221,000	943,000
Less amortization of excess cost attributed to proven gas reserves	(184,000)	(184,000)
Net income attributable to Corporation's common share investment included in earnings for the year	1,037,000	759,000

The following is a summary of the financial position of North Canadian at December 31, 1980 and 1979:

	1980	1979
	$	$
ASSETS		
Current assets	4,729,000	8,712,000
Long-term investments —		
Hatleigh Corporation — at equity	8,119,000	20,546,000
Other investments — at cost (quoted market value: December 31, 1980 — no quoted market value; December 31, 1979 — $6,892,000)	700,000	6,884,000
	8,819,000	27,430,000
Property, plant and equipment, less accumulated depreciation, depletion and amortization	42,019,000	33,256,000
Other assets	589,000	258,000
	56,156,000	69,656,000
LIABILITIES		
Current liabilities	5,216,000	4,546,000
Long-term debt	9,600,000	16,547,000
Deferred income taxes	12,830,000	11,057,000
SHAREHOLDERS' EQUITY		
Capital stock —		
Preferred shares	1,214,000	1,296,000
Common shares — December 31, 1980 — 5,696,165 shares; December 31, 1979 — 5,672,365 shares	23,272,000	23,063,000
	24,486,000	24,359,000
Capital redemption reserve fund	2,286,000	2,204,000
Contributed surplus	40,000	23,000
Retained earnings	16,814,000	26,036,000
	43,626,000	52,622,000
Less cost of shares of North Canadian held by Hatleigh	15,116,000	15,116,000
	28,510,000	37,506,000
	56,156,000	69,656,000

D. FOODEX INC.

(a) Investment

Foodex is an operating and holding corporation which is primarily engaged in the restaurant business. The 63% owned subsidiary, Gibraltar, owns and operates racetracks in the United States. The following is a summary of the components of the carrying value of the investment in Foodex at December 31, 1980 and 1979:

	1980	1979
	$	$
Corporation's proportion of consolidated book value of underlying net assets (including proportion ($7,146,000) of goodwill in Foodex's consolidated accounts)	16,348,000	17,893,000
Adjustments —		
Additional goodwill and other intangible assets (see note below)	9,716,000	9,834,000
Excess of stated value over aggregate purchase price of 86,100 cumulative redeemable preference shares held by Hatleigh	—	73,000
	26,064,000	27,800,000
Less: Provision for write-down to estimated realizable value (note 1(a))	14,477,000	—
Carrying value of common share investment in Foodex	11,587,000	27,800,000

Note:
The additional goodwill and other intangible assets includes goodwill (net of accumulated amortization) of $3,888,000 at December 31, 1980 ($4,006,000 at December 31, 1979) which arose on the amalgamation of the Corporation with Hatleigh Investments Limited in 1978. This goodwill is being amortized on a straight-line basis over thirty-five years. The remaining goodwill of $5,828,000 was purchased prior to April 1974 and in accordance with the Corporation's practice is not being amortized so long as there is no evidence of impairment in value.

Summarized consolidated operating results of Foodex and the Corporation's equity therein for the years ended December 31, 1980 and 1979 follows:

	1980	1979
Revenue:	$	$
Restaurant operations	96,162,000	84,136,000
Racetrack operations	40,577,000	33,107,000
	136,739,000	117,243,000
Net income (loss) before minority interest	(110,000)	2,014,000
Minority interest in income of U.S. subsidiaries	337,000	193,000
Net income (loss) for the year	(447,000)	1,821,000
Net income (loss) attributable to Corporation's common share investment —		
Net income (loss) as above	(447,000)	1,821,000
Add (deduct):		
Dividends on preference shares	(1,383,000)	(1,484,000)
Gain on purchase of preference shares	285,000	129,000
Amortization of goodwill (see note above)	(118,000)	(118,000)
	(1,216,000)	(1,473,000)
Net income (loss) attributable to Corporation's common share investment included in earnings for the year	(1,663,000)	348,000

The following is a summary of the consolidated financial position of Foodex at December 31, 1980 and 1979:

	1980	1979
ASSETS		
Current assets	18,899,000	22,594,000
Fixed assets —		
Buildings, plant, equipment and leaseholds, less accumulated depreciation and amortization	47,387,000	42,611,000
Land	16,270,000	17,160,000
	63,657,000	59,771,000
Goodwill	12,974,000	12,974,000
Other assets	2,851,000	3,483,000
	98,381,000	98,822,000
LIABILITIES		
Current liabilities	22,683,000	17,163,000
Long-term debt (see note (b) below)	32,580,000	35,938,000
Deferred income taxes	4,777,000	5,433,000
Minority interest in U.S. subsidiaries	7,840,000	7,503,000
Contingent liabilities (see note (d) below)		
SHAREHOLDERS' EQUITY		
Capital (see note (c) below) —		
Cumulative redeemable preference shares — December 31, 1980 — 1,569,901 shares; December 31, 1979 — 1,697,901 shares;	14,129,000	15,281,000
Series A junior preference shares — 413,000 shares (nil at December 31, 1979)	413,000	—
2,625,141 common shares	7,838,000	7,838,000
Contributed surplus	695,000	410,000
Retained earnings	7,426,000	9,256,000
	30,501,000	32,785,000
	98,381,000	98,822,000

(b) Long-term debt

Long-term debt consists of:

	1980	1979
	$	$
Revolving term bank loan, repayable over 5 years commencing not earlier than 1984	19,750,000	23,250,000
Term bank loans, repayable over periods to July 1, 1986 ($9,882,000) and August 1, 1990 ($1,021,000)	10,903,000	12,983,000
Amounts due under capital leases	3,573,000	—
Other	1,326,000	1,111,000
	35,552,000	37,344,000
Less: Current portion included in current liabilities	2,972,000	1,406,000
	32,580,000	35,938,000

All bank indebtedness of Foodex is secured by fixed and floating charge demand debentures totalling $50,000,000 on its assets, by the pledging of all of the shares in the Canadian subsidiaries of Foodex and by the guarantees of all such subsidiaries and current bank indebtedness is also secured by a pledge of the inventory.

The aggregate amounts payable on long-term debt in the next 5 years are as follows:

	1980	1979
	$	$
1980	—	1,406,000
1981	2,768,000	1,658,000
1982	2,773,000	3,710,000
1983	2,778,000	2,314,000
1984	3,008,000*	2,839,000*
1985	2,273,000*	1,703,000*

* Excludes any amount that may be payable on revolving bank loan.

(c) Share Capital

During the year ended December 31, 1980 the board of directors of Foodex approved the creation of 500,000 series A junior redeemable preference shares and the issuance of 413,000 of these shares to Hatleigh Corporation for a $413,000 cash consideration. The junior redeemable preference shares rank junior to the cumulative redeemable preference shares with respect to payment of dividends and distribution of assets in the event of the liquidation, dissolution or winding-up of Foodex. The junior preference shares are entitled to non-cumulative 10% dividends.

?

The cumulative redeemable preference shareholders of Foodex are entitled to fixed cumulative preferential cash dividends of $0.855 per share per annum. Foodex may purchase for cancellation the whole or any part of such outstanding preference shares in the open market at a price not exceeding $9.70 per share until July 15, 1983 and thereafter the shares are redeemable at $9.40 to July 15, 1984 reducing by $0.10 per share annually to $9.00 per share on July 15, 1987 and thereafter. Foodex was required in 1980 and is required in subsequent years to make all reasonable efforts in each quarter to purchase for cancellation in the open market 1 ¼% of the 2,046,496 cumulative redeemable preference shares originally issued at a price not exceeding $9 per share plus all accrued and unpaid dividends thereon. The company met its purchase requirement for each of the four quarters of 1980 and also contributed to a deficiency which existed from the final two quarters of 1979, by the purchase of 128,000 preference shares at a total cost of $866,754.

(d) Contingent liabilities of Foodex

i) In 1975 three corporations and three individuals were named as defendants in a claim by the Hamilton Harbour Commissioner for damages arising out of an alleged conspiracy in respect of quotations submitted by the defendants for dredging work in the Hamilton Harbour, which quotations led to contracts between the Hamilton Harbour Commission and two of the corporate defendants. In January 1979, Albemont Limited ("Albemont"), a subsidiary of Foodex, was added as a co-defendant in the claim. Albemont has filed a Statement of Defence and third party claim for indemnity against five individuals in connection with this claim.

In December of 1979, eleven corporations, including Albemont, and seven individuals were named as defendants in an action commenced by the Attorney General of Canada and the National Harbours Board claiming damages arising out of an alleged conspiracy and fraud in respect of quotations and tenders between the years 1967 and 1972 for dredging projects at five locations in the province of Quebec.

With respect to the above claims, counsel for Albemont is not able to advise at this stage, what, if any, liability Albemont may incur in this action. Management of Hatleigh, Foodex and Albemont have no knowledge of any wrongdoing by Albemont in connection with the matters referred to in the claims or of the evidence, if any, supporting the allegations made against Albemont, and accordingly no provision has been made in the consolidated financial statements of Foodex for any liability in connection with these actions.

Albemont and five other corporations were also named in 1975 as defendants in a counterclaim made by Her Majesty the Queen in Right of Canada for damages and costs in an unstated amount arising out of alleged bidding practices and/or a conspiracy with respect to same said to be contrary to honest industrial usage in Canada. Counsel for Foodex are advised by counsel in the office of the Attorney General of Canada that this counterclaim will be discontinued in the near future.

ii) The General Assembly of the State of Maryland has been studying the reorganization of thoroughbred racing in Maryland. On February 13, 1981, legislation was introduced in the General Assembly which, if enacted, would have the effect of terminating racing at Bowie Race Course (operated by Southern Maryland Agricultural Association ("SMAA"), a 70% owned subsidiary of Gibraltar) after 1981. The legislation provides that the State would acquire for U.S. $6,000,000 the 96 days raced annually at Bowie.

?

The consolidated financial statements include the undepreciated racing plant and improvements and unamortized goodwill aggregating approximately $7,676,000 and $1,557,000 of land relating to the Bowie Race Course operations. Total consolidated revenues include $27,618,000 and $18,139,000 and consolidated net earnings after minority interest includes approximately $165,000 and $49,000 related to Bowie operations in the years 1980 and 1979, respectively.

It is not possible to predict whether the legislation will be approved as it has been proposed, and accordingly, the outcome of such legislative activity and the resultant effect, if any, on the consolidated financial statements of the Corporation cannot be determined at the present time.

(e) Commitments

i) Capital leases

The following is a schedule of the future minimum lease payments of the capital leases, together with the balance of the obligations. The leases expire during the period from December 31, 1987 to July 31, 1988.

	$
Year ending December 31, 1981	723,300
1982	723,300
1983	723,300
1984	723,300
1985	723,300
Thereafter	1,894,163
Total minimum lease payments	5,510,663
Less: Amount representing interest (ranging from 9.8% to 12.5%)	(1,877,617)
Balance of obligations	3,633,046
Less: Prepaid amount	(60,275)
	3,572,771

ii) Operating leases

At December 31, 1980, Foodex had rental commitments under operating lease agreements in the aggregate of $74,800,000 requiring minimum aggregate annual payments of approximately $4,300,000 in each of the years 1981 through 1985.

(f) Segmented information
The company operates in two industries, each within distinct geographic areas; restaurant operations in Canada and racetrack operations in the United States. The following is a summary of certain information with respect to each of these segments:

	Restaurant		Racetrack		Consolidated	
	1980	1979	1980	1979	1980	1979
	(Thousands of dollars)					
Revenue	96,162	84,136	40,577	33,107	136,739	117,243
Operating profit	4,794	6,868	2,933	2,325	7,727	9,193
Interest expense	6,317	4,647	219	466	6,536	5,113
Income taxes	(673)	951	1,747	941	1,074	1,892
Foreign exchange loss	—	—	227	174	227	174
Minority interest	—	—	337	193	337	193
	5,644	5,598	2,530	1,774	8,174	7,372
Net earnings (loss)	(850)	1,270	403	551	(447)	1,821
Depreciation of fixed assets	3,790	3,099	949	890	4,739	3,989
Capital expenditures	8,307	8,877	2,202	493	10,509	9,370
Identifiable assets	71,881	74,121	26,500	24,701	98,381	98,822

E. KESMARK LTD. DEBENTURE
The Kesmark Ltd. debenture is payable in annual instalments of $1,000,000 plus interest on each of December 15, 1981, 1982 and 1983, with the balance due December 15, 1984. The debenture is guaranteed by an officer and director of the Corporation.

Kasner → gets ½ profit computed at end of 5 year pd. no value to participating feature.

→ co. liable to make up losses in Foodex 60 days after year-end. → subscribing end of Feb. 1981 subscribe Foodex

→ sold on market.

Jayne Bryant → we were aware of potential liab... Mico not a participants.

→ oblig. v. Alder Oils → the equivalent 7 m cash or equivalent

by Sep 30, 1978.

[illegible]

[illegible]

Cuff v Hatleigh... n – reasons for our comments

① not a rgm → (voluntary) — ▸ allowed majority of sh to vote. 2-4 a sh

"main bus. bar"

→ appropriate [illegible] "[illegible]"

— co suffered from a number of factors ... [illegible] ... [illegible],
[illegible] present attending ... 2.5 – 3 [illegible] to
new restaurants [illegible] — Ponderosas to 60 from 10.

→ aggressive marketing margins under pressure.

	1980	1980
→ profit after taxes	$ 2,420,000	251,000
	1,353,000	864,000
	3,753,000	616,000

→ have to hold firm on — [illegible] opportunities [illegible] ...